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4 October 1978

MEMORANDUM FOR THE RECORD

SUBJECT: Information on Soviet Grain
Requirements

The attached ER M 78-10655 was forwarded to
Reg Bartholomew, National Security Council, Europe,
USSR, and East-West via [REDACTED] NIO/USSR/Eastern
Europe.

Attachment
As Stated

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THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Officers

5 September 1978

Reg Bartholomew
National Security Council
Europe, USSR and East-West
Rm 368, Old EOB
[395-5607]

Dear Mr. Bartholomew:

Attached is the memo you requested
 on the likely Soviet position
regarding grain purchases. It was prepared
largely by CER; I have added some concluding
political judgments.

If there are any questions, please let
me know.

Assistant to the
National Intelligence Officer
for USSR-EE

cc: Timothy Deal
National Security Council
International Economics
Rm 352 Old EOB
[395-5697]

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| Automatically declassified on Date Impossible to Determine |

(5 Sept 78)

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MEMORANDUM

SUBJECT: Information on Soviet Grain Requirements

1. Based on conditions through late August, it appears likely that the USSR will harvest a record grain crop -- more than 225 million tons. Unless the Soviet crop is considerably in excess of that figure, we expect the USSR to purchase 15 to 20 million tons (currently valued at \$1.5 to \$2 billion) for delivery during the marketing year from October 1978 to September 1979 (MY1979). This estimate is based on Soviet plans for expanding the livestock sector.

2. Moscow should have little difficulty in financing imports of 15 to 20 million tons of grain from the West in the current crop year. Although faced with a hard currency trade deficit of perhaps \$4 billion in 1978 and rising debt service in 1978 and 1979, the USSR nonetheless appears to be in a strong balance of payments position. By yearend 1977 the USSR had sharply cut its hard currency current account deficit and increased its foreign exchange holdings to record levels. Moreover, Moscow has available to it a substantial volume of Western long-term government-backed credits to finance a large part of its non-grain imports.

3. We believe it unlikely the Soviets will feel compelled to come to the US for more than 8 million tons because of any lack of grain outside the US. Under the terms⁹ of the US-USSR Long-Term Grain Agreement, Moscow is committed to buy at least 6 million tons of US corn and wheat annually and may purchase as much as 8 million tons without prior consultation.

4. The relatively high level of world supplies this year increases Soviet flexibility in planning and executing their grain buying program. The situation is most pronounced with wheat; Canadian and EC wheat supplies -- current production plus carryover stocks -- during MY1979 are estimated to be up, and conditions in Argentina and Australia indicate sharp increases in their upcoming November/December wheat harvest compared with last year. Coarse grain supplies* are also up. Argentine corn exports to the USSR in MY1979 could be at least as much as 1.5 million tons -- equal to last year.

* Corn, barley, oats.

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| exemption schedule 25 (U) | |

5. We estimate, as a result, that 5.5 to 6.0 million tons of non-US wheat and 4.5 and 5.0 million tons of coarse grains could be easily available for export to the Soviet Union -- mainly from Argentina, Canada, Australia, and the EC.* We believe 10.5 to 11.0 million tons of grain could be supplied from all non-US sources. In sum, without disrupting long-term trading patterns between non-US suppliers and non-Soviet buyers, if the Soviets were to aggressively seek additional amounts of grain, perhaps even at premium prices, large additional quantities from non-US suppliers would be available. To date, a maximum of 750,000 tons of non-US grain has been ordered by the USSR for delivery in MY1979.

6. In recent discussions with US grain exporters, the Soviets have stated that, because of the way that the US has dealt with the dissident trials, the USSR is actively seeking alternative grain suppliers. Although the US could lose some share of its wheat market to other exporters, the same does not appear to hold true for corn.

7. In sum, while the Soviets have some modest economic incentives to make excess grain purchases from the US (the potential savings on logistical costs and resources and their preference for more rather than less corn in the coarse grain mix), they have no major economic compulsion to do so, since sufficient grain is available elsewhere. The dominant factors in their minds will therefore be political. On this ground, we believe the Soviets will indeed wish to channel at least the bulk of their purchases beyond 8 million tons outside the US, both for the reason they have stated -- their resentment over US human rights policies -- and because of a desire to diversify sources in order to dramatize to the US the limits of US economic leverage.

8. At the same time, we also believe that the Soviets have not yet made up their minds whether or not to purchase some grain from the US beyond 8 million tons, largely because the bilateral political relationship is now in flux, and because there have recently been some slight signs of a Soviet desire to ease bilateral tensions. It is conceivable that the Soviets may eventually consider it politically expedient to make some additional purchases, if only to strengthen those forces in the US seen as favoring increased economic ties with the USSR. It is likely, however, that any decision on this point will be deferred for some time, and will be shaped by their perception of the direction in which the overall political relationship moves this fall.

* However, the mix of coarse grains would contain less corn than the Soviets would prefer, since the proportion of the world's exportable corn which is available outside the US is much smaller than is the case with other grains.